

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Public Works	(2) MEETING DATE 11/1/2016	(3) CONTACT/PHONE Courtney Howard, Water Resources Division Manager (805) 781-1016	
(4) SUBJECT Submittal of a resolution establishing a policy regarding management of the San Luis Obispo County Flood Control and Water Conservation District General Fund Budget and Reserves. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board, acting as the Board of Supervisors for the San Luis Obispo County Flood Control and Water Conservation District (District), adopt the attached resolution establishing a policy regarding management of the San Luis Obispo County Flood Control and Water Conservation District General Fund Budget and Reserves.			
(6) FUNDING SOURCE(S) Flood Control Zone General	(7) CURRENT YEAR FINANCIAL IMPACT N/A	(8) ANNUAL FINANCIAL IMPACT N/A	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____ ) <input checked="" type="checkbox"/> Board Business (Time Est. 90 min)			
(11) EXECUTED DOCUMENTS <input checked="" type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A    Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW David E. Grim			
(18) SUPERVISOR DISTRICT(S) All Districts			

Reference: 16NOV01-BB-1

## County of San Luis Obispo



TO: Board of Supervisors

FROM: Public Works  
Courtney Howard, Water Resources Division Manager

VIA: Wade Horton, Director of Public Works  
Mark Hutchinson, Deputy Director of Public Works

DATE: 11/1/2016

SUBJECT: Submittal of a resolution establishing a policy regarding management of the San Luis Obispo County Flood Control and Water Conservation District General Fund Budget and Reserves. All Districts.

### **RECOMMENDATION**

It is recommended that the Board, acting as the Board of Supervisors for the San Luis Obispo County Flood Control and Water Conservation District (District), adopt the attached resolution establishing a policy regarding management of the San Luis Obispo County Flood Control and Water Conservation District General Fund Budget and Reserves.

### **DISCUSSION**

The District was established in 1945 by the San Luis Obispo County Flood Control and Water Conservation District Act (Act 7205 of the Uncodified Acts of California Water Code) (District Act) to provide for the implementation of activities and projects to manage water resources within the District (boundary is coterminous with the County boundary). Pursuant to the District Act, the District has provided services associated with the identification, procurement and start-up of flood management zones and wholesale water supply projects, including:

- Arroyo Grande Creek Flood Control Channel (Zone 1/1A) (1946)
- Nacimiento Water Contract (1959), Nacimiento Water Project (2011) and full subscription (2016)
- Lopez Reservoir, Treatment Plant and Distribution System (1960; fully allocated)
- Nipomo Drainage Management Area (Zone 4) (1961)
- State Water Project Contract (1963), local contracts and facilities (1992 – 1997)
- San Luis Creek Flood Management Area (Zone 9) (1973)
- Cambria Flood Control Project (Zone 18) (1999)

The District Act also authorizes the District to carry on technical and other necessary investigations, including the collection of data and the preparation of studies pertaining to water supply and control of flood and storm waters. Consistent with its investigatory role, the District Board of Supervisors

approved Resolution 68-223 which established a policy regarding surveillance of potential drainage problems within the District and the manner in which any necessary remedial measures (planning, design, construction, financing and maintenance of drainage facilities) would be funded (1968 Policy). Although the 1968 Policy only specifically addresses drainage projects, the District has followed the policy's general methodology in carrying out its surveillance of water problems more broadly.

The hydrologic data collected over the past six decades in accordance with this investigatory role has provided critical information for understanding the historical and ongoing health and behavior of the District's hydrologic environment and enabled the development of regional and sub-regional tools for water resource management activities. Regional and subregional studies have been conducted to continue to identify opportunities to maintain or achieve water resource sustainability, including several District-wide Master Water Reports, an Integrated Regional Water Management (IRWM) Plan, various project feasibility studies and groundwater basin characterization studies.

New ongoing regional water resource program needs associated with local implementation of the State's IRWM Program, a prioritized focus on collaborative water management opportunities, and an unprecedented modern drought cycle have increased the complexity of the role of the District in partnering with communities in all areas of the county to achieve water resource sustainability. Therefore, staff is recommending that the 1968 Policy be replaced with a new resolution that updates outdated language and reflects current and anticipated District service roles.

Most recently, the passage of the Sustainable Groundwater Management Act (SGMA) requires certain local agencies and stakeholders overlying five groundwater basins in the District to establish Groundwater Sustainability Agencies (GSAs) and establish revenue and resources to fund and staff SGMA compliance efforts on an ongoing, annual basis in order to avoid the possibility of State intervention. Consistent with its historical role in forming Flood Control Zones, the District is currently partnering with these local agencies and stakeholders to help them establish GSAs. Once GSAs are formed, staff anticipates serving as liaisons, helping to convey information between State, District, County and GSA activities, and partner on specific technical studies as budget allows, consistent with the District's historic regional and sub-regional technical support role.

Going forward, in order to ensure the desired regional services of the District can be sustainably funded and reserves are adequate over time, staff is recommending the Board adopt the attached resolution establishing a policy that addresses the management strategy for the District's General Fund budget and reserves. If approved, the policy would guide the development of future annual work program and budget recommendations. Key elements of the policy are summarized in the table below and discussed in more detail in the following sections.

### Key Policy Elements:

Operating Budget Management Strategy Elements:
1. Provides description of District services
2. Sets priorities for allocation of the budget
3. Limits use of funding to one-time initial efforts for long-term solution implementation
Reserves Management Strategy Elements:
4. Considers potential need to build reserves for future one-time efforts
5. Sets a \$3.1M minimum threshold for reserves for Board-approved emergency services or contingencies

## *District General Fund Operating Budget Strategy*

District services have been consistent with the four elements that are necessary moving forward to achieve sustainable water resources in each area of the District and have been included as priorities for funding in the strategy:

- Understanding conditions (e.g. data collection)
- Defining a vision for sustainability (e.g. IRWM Program implementation)
- Identifying opportunities (e.g. feasibility studies)
- Initial implementation of solutions (e.g. funding procurement)

These services are organized into five work programs as further described in Attachment 2, and it is anticipated that these ongoing programs will continue as needs for the foreseeable future:



Adequate staffing will be important to ensure the ongoing efforts under each program are adequately managed and achieve the benefits intended. For example, inadequate staffing and associated financial support for the IRWM program may result in grant agreement breaches and ineligibility for grants. Inadequate staffing and associated financial support for the technical program may diminish the reliability and accessibility of the data used to develop studies, anticipate problems and inform decisions in each community. Additionally, large regional or sub-regional projects envisioned for the future may require significant seed-money to get off the ground and/or leverage grant money until such time as beneficiaries are established and providing revenue toward the project. It is anticipated that 75% of the annual budget will be required to fund ongoing programs, leaving 25% for one-time efforts, and this proportion is expected to continue unless existing programs are cut or supplemental funding is procured.

Consequently, the recommended strategy for managing the District budget balances the need to adequately support both ongoing programs associated with regional data collection, groundwater/watershed/regional stakeholder engagement and IRWM plan implementation, and one-time expenditures to facilitate the implementation of projects (e.g. funding processes, preliminary project development, and cash flow/start-up costs, generally characterized as “priority special projects”).

For example, staff would develop the proposed Fiscal Year 2017-18 budget by allocating funding in accordance with the following priority order:

- Needs associated with existing regional programmatic services and commitments,
- District financing needs and other County-provided services related to water resources,

- Other projects and programs that come forward as recommendations through the IRWM project solicitation and grant application process, or are identified by sub-regional and/or regional stakeholder groups and have implementation support from multiple entities.

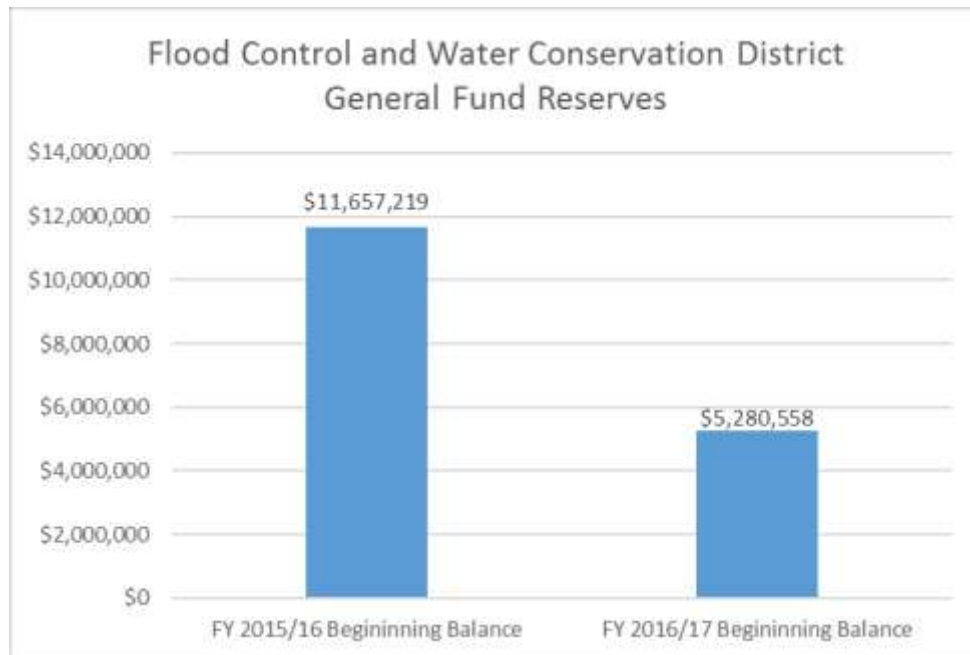
The following provides a further illustration of the anticipated approach to developing the budget:

Need	Project	Driver
Regional	Emergency Interties Cloudseeding Desalination	Drought/Long Term Needs
	IRWM Planning Grant Apps IRWM Plan Update IRWM Implementation Grant Apps	Lead Agency Role
	Key Well Index CASGEM Data Gaps Data Management Software	CASGEM Regulations/Grant Eligibility
	Template SGMA Agreements/Educational Materials	Regulations
	Countywide Stormwater Resources Plan	Identify Needs/Grant Eligibility
Organization	Flood Control Zone/County Service Area Loans/Cash Flow	Financing Liabilities or Grant Opportunities
Sub-Regional	IRWM Efforts	Priority Projects of Sub-Regional Benefit
	Groundwater Basin Efforts	SGMA Regulations
	Watershed Efforts	Flood/Stormwater Management Needs to Mitigate Risk

To ensure the most programs and priority special projects can be provided and funded, and to recover District expenditures on projects of sub-regional benefit, pursuit of grants and cost sharing agreements are a part of the recommended strategy.

#### District General Fund Reserves Strategy

In the late 2000s/early 2010s, sales of excess State Water and the transfer of Nacimiento Water Project reserve funds when Project agreements were signed significantly augmented District General Fund reserves and facilitated the opportunity to leverage funds to address expanded water resource needs in the short term. As illustrated below and further described in Attachment 3, reserves are now drawn down to a point where opportunities to leverage the funding are not as significant or sustainable.



While reserves have been utilized for many purposes as illustrated in Attachment 3, going forward it will be important to ensure reserves are not funding ongoing labor or services that would draw on reserves continually. It is anticipated that reserves would be leveraged for one-time costs associated with special priority projects. Therefore, the recommended strategy includes managing the annual operating budget in such a way as to build up reserves in times when the priority special projects are being identified, so that adequate funding is available when it is time to implement the project. For illustrative purposes, some of the priority special projects that may be considered and authorized by the Board at some point in the future include funding elections for zones of benefit, funding a portion of the next phase of regional resiliency infrastructure efforts, adding infrastructure at a monitoring location and grant applications.

As reserves are built up and utilized, it is also important to establish a minimum threshold at which only the Board would approve use of those funds in an emergency or urgent situation. A minimum threshold of \$3.1M is included in the recommended strategy to fund items such as flood damage liabilities, infrastructure to deliver emergency water supplies and/or budget gaps associated with short term State-imposed reductions in tax revenue.

### **OTHER AGENCY INVOLVEMENT/IMPACT**

To promote collaboration, transparency and effectiveness, the District's Water Resources Advisory Committee (WRAC) was established to advise the District Board of Supervisors concerning all policy decisions relating to the water resources of the District, recommend to the Board specific water resource programs, and recommend methods of financing water resource programs.

During its meeting on June 1, 2016, the WRAC supported a set of principles that formed the basis for the recommended District General Fund budget and reserves management strategy and formed an ad-hoc subcommittee to explore other funding strategies for water resources programs and projects. The WRAC also supported a \$3.1M minimum threshold for District General Fund reserves on September 7, 2016. The WRAC will review the Fiscal Year 2017/18 recommended District General

Fund budget in the spring of 2017 before it is presented to the Board for approval.

County Counsel has reviewed the resolution as to form and legal effect.

## **FINANCIAL CONSIDERATIONS**

The District's General Fund primary revenue source is a 0.525% share of the 1% ad-valorem county-wide tax. Prior to FY 2016/17, some of this revenue was directed to the Nacimiento Water Project to fund an offset to debt service attributable to the unallocated water. In FY 2016/17, the Nacimiento water became fully allocated and the portion of the ad-velorum tax was redirected back to the District's General Fund (BOS 6/21/16 #C-11.) As a result, the District's General Fund portion of the ad-valorem revenue increased from \$1.2M per year to approximately \$2.5M per year.

Attachment 4 is a 5-year projection for District General Fund Revenue and priority special project expenditures. Approval of a \$3.1M minimum threshold for the reserves, would mean Reserves would be sufficient to fund the anticipated projects until FY 2018/19, after which Reserves would be insufficient to fund the anticipated projects without identifying other revenue sources.

Upon approval of this strategy, Staff would proceed with augmenting the FY 2016/17 budget via mid-year requests for anticipated projects noted in the projection that are not included in the current budget, develop the recommended budget for FY 2017/18 in accordance with the projection and continue to evaluate opportunities for additional revenue sources.

## **RESULTS**

Approval of the resolution establishing a policy regarding management of the District General Fund budget and reserves will provide a foundation for developing the annual budget, thereby contributing to a well governed community.

## **ATTACHMENTS**

1. District Act Excerpt and Resolution 68-223
2. District General Fund Work Programs
3. District General Fund Reserves Recent History
4. District General Fund 5-Year Projection
5. Resolution Establishing a Policy Regarding Management of the San Luis Obispo County Flood Control and Water Conservation District General Fund Budget and Reserves

File: CF 340.10.02

Reference: 16NOV01-BB-1

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